

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 1042 - SB 1113

March 18, 2015

SUMMARY OF BILL: Authorizes the Tennessee Alcoholic Beverage Commission (ABC) to issue a self-distribution permit to a winery that has a registered distribution contract with a licensed wholesaler, if such contract does not include distribution by the wholesaler to counties within 100 miles of the winery's premises where such wine has been manufactured, produced, or bottled. Removes the 3,000 case limit currently imposed on a winery seeking a self-distribution permit for distribution of wine to any licensee holding an on-premises license, located within 100 miles of the winery's premises where such wine has been manufactured, produced, or bottled.

ESTIMATED FISCAL IMPACT:

Increase State Revenue – \$9,500

Increase Local Revenue – \$3,300/Permissive

Assumptions:

- The proposed legislation is estimated to result in an increase in wine sales of approximately three percent, mostly due to the elimination of the currently imposed distribution limit of 3,000 cases.
- Pursuant to Tenn. Code Ann. § 57-3-302(a), a tax of \$1.21 per gallon is imposed on sale or distribution by sale or gift of wine, the proceeds of which are distributed 82.5 percent to the state and 17.5 percent to the local government, pursuant to Tenn. Code Ann. § 57-3-306(b).
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The Department of Revenue reports that total wine excise tax collections were \$405,858 in FY13-14. The number of gallons of wine sold by wineries is estimated to be 335,420 ($\$405,858 / \1.21).
- Assuming that wineries direct 25 percent of their sales to licensees holding an on-premises license, the recurring increase in wine excise revenue is estimated to be \$3,044 [$(\$405,858 \times 25.0\%) \times 3.0\%$], of which \$2,511 ($\$3,044 \times 82.5\%$) will be state increase, and \$533 ($\$3,044 \times 17.5\%$) will be local increase.
- The average price per gallon of wine is estimated to be \$40.30. The total number of gallons of wine sold to licensees holding an on-premises license is estimated to be 83,855 ($335,420 \times 25.0\%$). Total taxable sales are estimated to be \$3,379,357 ($83,855 \times$

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\$40.30), and the increase in taxable sales is estimated to be \$101,381 ($\$3,379,357 \times 3.0\%$).

- The recurring net increase in state sales tax collections is estimated to be \$6,840 [$(\$101,381 \times 7.0\%) - (\$101,381 \times 7.0\% \times 3.617\%)$].
- The recurring increase in local sales tax collections is estimated to be \$2,791 [$(\$101,381 \times 2.5\%) + (\$101,381 \times 7.0\% \times 3.617\%)$].
- Pursuant to Tenn. Code Ann. § 57-6-201(a), an enforcement tax of \$0.15 is imposed on each case of alcoholic beverages sold at wholesale in Tennessee, proceeds of which are to be deposited in the state's General Fund.
- The number of cases sold by wineries to licensees holding an on-premises license is estimated to be 35,278 (83,855 gallons / 2.377 gallons per case).
- The recurring increase in state revenue is estimated to be \$159 [$(35,278 \times 3.0\%) \times \0.15].
- The total recurring increase in state revenue is estimated to be \$9,510 ($\$2,511 + \$6,840 + \159); the total recurring increase in local revenue is estimated to be \$3,324 ($\$533 + \$2,791$).
- Any impact on revenue to the ABC Fund from application and permit fees is estimated to be not significant.
- No additional personnel or resources will be required by the ABC.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Jeffrey L. Spalding, Executive Director

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